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C O N F I D E N T I A L BRATISLAVA 000319

SIPDIS

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TAGS: ECON KCOR LO

SUBJECT: RADICAL HEALTH CARE REFORMS? MAYBE NOT

Classified By: By CDA Scott Thayer for reasons 1.4 (b) and (d)

11. (C) Summary. In October 2004, the Slovak Parliament passed six health care reform laws that the World Bank called some of the "most radical reforms in the world." The laws seek to reduce the GOS's role in health care and make Slovaks pay for medical services that were once free as a way of helping keep the highly-indebted Slovak health care sector solvent. However, six months and two rounds of amendments later, many of the details of these reforms remain unclear. Upon inspection, many of the reforms are only potential changes. The GOS is still primarily responsible for health care. A shadowy financial group appears ready to profit from the system and is suspected of buying MPs' votes to make sure parts of the reform legislation passed. The Slovak health care system has abundant room for improvement, and these reforms are an important step, but they are not as radical as they are billed to be and could take years to be implemented.
End summary.

12. (U) Slovakia's health care reform movement really began in 2003 with the adoption of laws requiring citizens to start paying, although modestly, for medical services that previously had been free. The charges of approximately USD 0.65 to visit a doctor, USD 1.65 per night to stay in a hospital, and USD 0.65 to fill a prescription represented the first ever out-of-pocket health care costs to Slovaks. They were not warmly received by the public, many of whom failed to understand the severity of the sector's financial problems. However, these changes appear to have achieved the desired effect by reducing the over-use of the system and cutting the sector's financial shortfall. This was truly the first step in saving the Slovak health care sector.

WHAT REFORMS?

13. (SBU) The October 2004 reforms attempt to formalize the idea that Slovaks need to take responsibility for their own health, share an even greater portion of medical care expenses, and accept the idea that profitable health insurance companies do not necessarily take money away from public health needs. The six laws give a general outline of health care rights and responsibilities, procedures and medicines that will be covered by insurance, the privatization of hospitals, responsibilities of emergency health care services, the division of public and private insurance spheres, and conditions governing health insurance companies. Unfortunately, many of the details of the six new laws remain unclear, such as the percentage of costs covered by insurance, despite two rounds of amendments. The World Bank has backed off its claim that these reforms represent the most radical health care reforms in the world, though agrees that the 2003 change of simply making people pay for health care services represents a great step.

14. (SBU) According to media reports, many of the decisions about which medical procedures will be covered by insurance and to what degree will likely not be decided until after the 2006 Parliamentary elections. This leaves a huge hole in the middle of the GOS's ambitious set of reforms. Slovakia's ruling minority coalition government has made a name for itself with successful reforms in banking, foreign investment, privatization, taxes, pensions, and initial steps in health care. Possibly they are holding something back for a potential third term in office to go along with expected reforms to the education system. On the other hand, reforming a heretofore free health care system will be comparatively expensive for all Slovaks and is maybe not something the GOS wants to undertake before an election (in September 2006). However, if the opposition wins the next election, it would be highly doubtful that many of the health care changes would be finalized. Regardless, the introduction of fee for services that was passed in 2003 has already significantly changed the Slovak health care sector.

PENTA GROUP

15. (C) Despite its great budget difficulties, the amount of money flowing through the health care system make it a potentially very lucrative sector. Though many issues remain, one that was clarified is that owning franchises of pharmacies will become legal. Because the GOS was able to pass the six reform laws fairly easily due to support from

independent MPs, there were rumors that votes had been purchased. A suspected source of vote-buying was the Penta Financial Group. Known for its predatory business practices, Penta has grown from a small start-up company in 1995 to having USD 350 million in assets today. Penta and its network of companies already control three of Slovakia's five health insurance companies (the other two are state-owned), have plans to purchase 100 pharmacies, and have also been trying to buy hospitals. (Comment: Having a vertically integrated health care company could be beneficial in

developing the new Slovak health care sector, but many Slovaks question Penta's suitability.) A reliable contact with ties to Penta told econoff that the company paid SKK 2 million (USD 67,000) each for an undisclosed number of independent MPs' votes to assure that the reform legalizing the franchising of pharmacies passed. According to the same contact, Penta wants to use franchising agreements and the ownership of insurance companies to steer customers to its pharmacies and squeeze competing pharmacies out of business. Currently, pharmacy ownership is decentralized, but Penta recently bought 20 pharmacies and is in the process of closing a deal for 17 more.

16. (C) Managing the cash flow of the only three private health insurance companies gives Penta sizable profit potential in addition to using these companies to feed its down-stream operations in pharmacies and (selected) hospitals. The powerful office of the Supervisor of Health Insurance Companies will be charged with monitoring and interpreting the actions of insurance companies and enforcing regulations. This position has yet to be filled. Many Slovaks believe that it is bad for health insurance companies to make a profit because those profits represent money that should be going to health care.

COMMENT

17. (C) The Slovak health care sector is truly being transformed from an inefficient, indebted and corrupt (according to Minister of Health Rudolf Zajac) system into one that is closer to sustainability. Zajac's lobbying efforts with the public and MPs to win support for reform appear to be bearing fruit. Despite accusations of vote buying for one of the reforms, it is important to remember that all six reforms passed. Although the GOS has not yet been able to significantly diminish its role in the system, patients are now sharing the burden of paying for medical care. This has had the beneficial effects of reducing waste, over-use of the system, and red ink. Unfortunately, it will likely be left for a future Slovak government to take the next bold moves in shoring up the health care sector, but at least the beginnings of the reforms have been placed in motion. Post will continue to monitor progress in health care reform and potential impediments to establishing a transparent and sustainable system.

THAYER

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